Micro-Finance Rating - Risk Assessment

Maxima Mikroheranhvatho Company Ltd.

Phnom Penh, Cambodia

Rating Grade	β **beta**	**Assessment**: Moderate safety, Moderate systems

Visit dates: 7 -9 December, 2006 **Operational Head**: Mr Uong Kimseng

Maximum validity of rating*: till December 2007

Rating

Maxima has an overall moderate grade despite recording excellent performance on financial indicators. A moderate to weak performance on management and governance has limited its overall grade. Excellent portfolio quality, good capital adequacy and reasonable profit margins have resulted in excellent financial ratios. However, governance and management suffer from the complete overlap of the management with the Board of Directors, an inefficient service delivery model, low staff productivity and weaknesses in systems.

In M-CRIL's view, on account of the future growth plans of the organisation and sound financial performance, it can absorb – from all sources – additional funds of US$100,000 during the next one year – for on-lending to its borrowers. **However, any inflow of funds should be contingent upon a widening of the composition of the Board to include at least two independent directors and the hiring of a full time Operations Director.**

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. **This rating is valid, subject to no other substantial inflows of loan funds into the organisation beyond the limits specified here** and to no other significant changes in the organisational structure and external operating environment.

for Micro-Credit Ratings International Ltd

Sanjay Sinha, Managing Director

***Validity** Though, at the time of the rating visit, all the operations were with SKS, the operations are likely to be transferred to SKS Microfinance Pvt Limited with effect from October 2005. This rating would remain valid for the SKS Microfinance Pvt Limited as well. This rating, however, will not be valid if any other significant change in the institutional structure or external environment happens. A **rating update** (comprehensive repeat rating) is recommended whenever such changes take place or at the end of **one year** from the date of the initial assessment, whichever is earlier.

Liability The rating assigned is a professional opinion of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.

Category wise rating

Category	Rating grade[1]
A *Governance aspects*	β–
B *Managerial factors*	β
C *Financial performance*	α
Overall	β

Key Risk Factors

1 **Governance structure:** Maxima's Board of Directors consists of five members who also form the Executive Management of the organisation. The presence of only the management team on the Board is not desirable since it precludes independent oversight of a financial institution. The management is, in practice, not accountable to any entity but itself and, therefore, fails to provide comfort to external stakeholders on the issue of fiduciary responsibility.

2 **Microfinance strategy:** Though Maxima has excellent performance on financial indicators, current features like an inefficient delivery mechanism resulting in low staff productivity and low depth of outreach in its areas of operation as well as the lack of a full time Operations Director undermines the potential of the microfinance programme.

Key Programme Strengths

Governance, experience and strategy	Management and operations	Financial
1 Board of Directors with experience in Banking and Finance 2 Substantial equity contribution by the promoters	1 Qualified managerial staff	1 Excellent portfolio quality 2 Sound capital base 3 Good performance on profitability and sustainability 4 Good yield to APR ratio

[1] M-CRIL's grading sheet is attached at the end of the report.

Maxima Mikroheranhvatho Company Limited

Organisational Profile

Legal form	Years of m-f operation	Number of				
		Active borrowers	*Total Clients*	*Total Staff*	*Branches*	*Active borrowers/ staff member*
Licensed MFI	7	1,566	1,595	23	1	68

Operational highlights

Deposits (US$)	Outstanding borrowings of MFI (US$)	Loan portfolio of Maxima (US$)	Loan disbursements during the past year (US$)	Average loan size from Maxima to borrowers (US$)
0.1 million	0.3 million	0.6 million	1.1 million	563.9

Key financial ratios

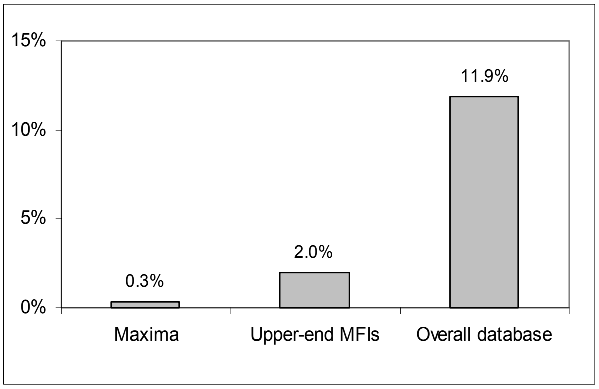
Portfolio at risk (≥60 days)	Current repayment rate	Risk weighted capital adequacy ratio	Weighted average cost of funds	Yield to APR ratio
0.3%	99.4%	31.5%	9.5%	98.9%
Yield on portfolio	**Other income to average portfolio**	**Financial cost ratio**	**Loan loss provisioning ratio**	**Operating expense ratio**
32.6%	0.3%	7.6%	0.5%	19.2%
Total income to average total assets	**Total expenses to average total assets**	**Return on average total assets**	**Operational self sufficiency**	**Financial self sufficiency**
31.2%	25.8%	4.2%	120.6%	111.2%

Notes:

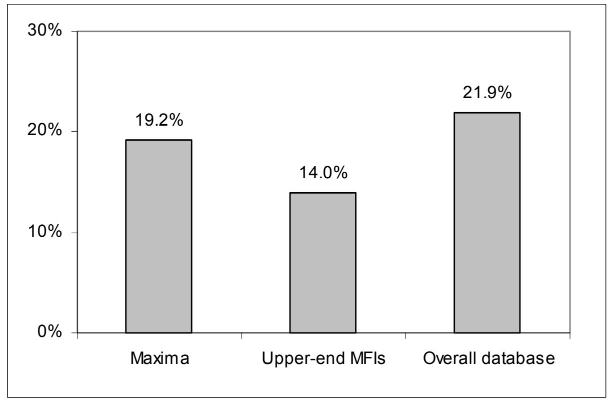
1. All figures and financial ratios presented above have been calculated as on 31 December 2006.
2. Other income includes investment income and penalty charged from clients for delays in repayments.
3. The ratios of repayment rate and portfolio at risk have been calculated on the basis of portfolio reports generated by the organisation, an examination of a sample of loan accounts, cross verification from office ledgers and during field visits to groups and examination of other office records.
4. So far, the organisation has written off loans (US$900) only once – in 2004.
5. Loan loss reserve for the year ending 31 December 2006 is maintained at 1.0%.

Maxima – Financial Overview

Portfolio at Risk (>=60 days) as on 31 December 2006

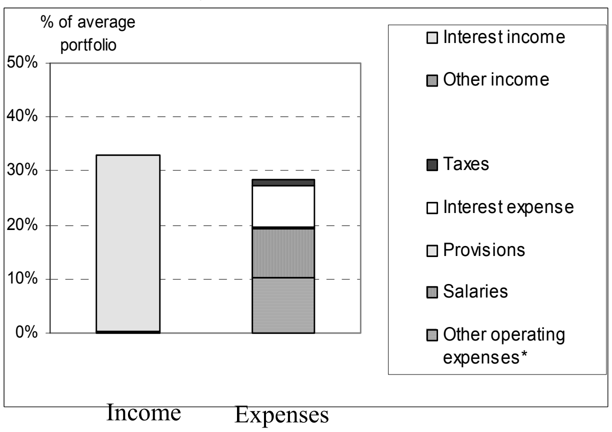


Operating Expense Ratio: 1 Jan 2006 - 31 Dec 2006



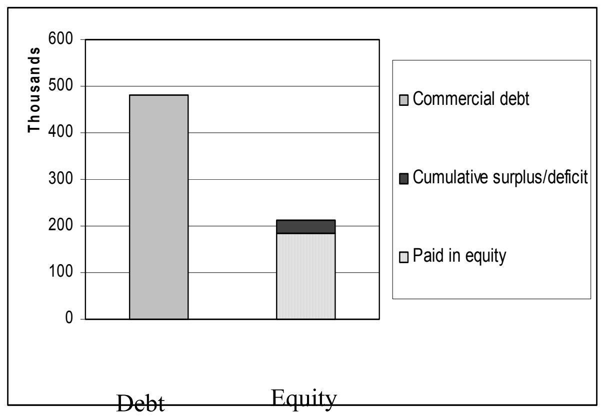
Note: 1. $n_{upper-end} = 10$ $n_{database} = 110$; Database updated as on 31 December 2005.
2. Outliers and rated NGOs with no direct lending have been removed for analysis. Upper-end figures reflect MFIs with top 10% scores.
3. The upper-end MFIs and overall database ratios represent simple averages for their respective samples.
4. The performance of either the Upper-end MFIs or all MFIs (overall database), do not necessarily reflect M-CRIL's rating standards.

Income and Expense Distribution:
1 Jan 2006 - 31 Dec 2006



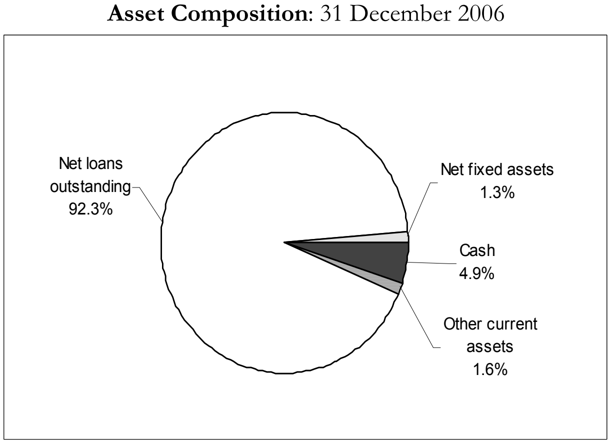
* Other operating expenses include travel, depreciation and administrative expenses

Debt and Equity Composition:
31 December 2006

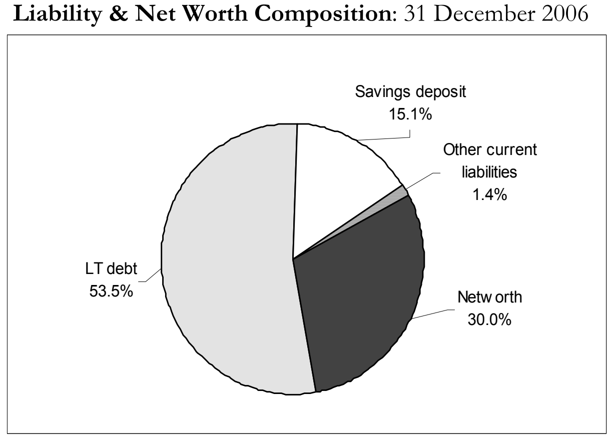


** Concessional debt is borrowing + comp.savings taken at < Bank PLR +50 basis points, & voluntary savings taken at < bank deposit rates

Asset Composition: 31 December 2006



Liability & Net Worth Composition: 31 December 2006



1 Organisational background

Maxima Mikroheranhvatho Co. Ltd. was founded in March 2000 with the objective of providing financial services to low income clients (individually or organised in groups) and micro-enterprises. The organisation was started by a group of friends with the aim of providing sustainable access to credit to its clients to start new businesses or expand existing ones. Maxima was registered as a rural credit operator with the National Bank of Cambodia (NBC) in May 2002 and, thereafter, received a license from NBC to operate as an MFI in Cambodia in August 2005.

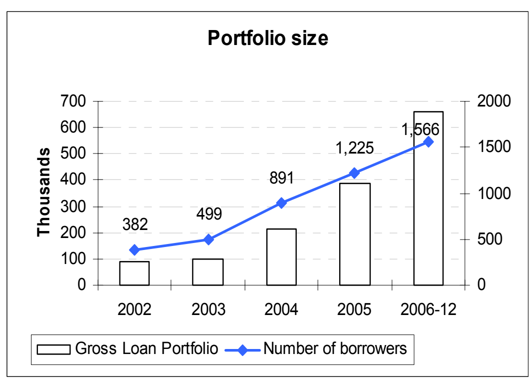
Maxima has a well qualified Board of Directors. The Board has five members comprising of the CEO of Maxima who is serving as advisor to the Phnom Penh Chamber of Commerce since February 2006, the Vice Chairman of Maxima who has served as Chief of Accounting at Pacific Commercial Bank, the Managing Director of Maxima who has been Deputy Chief of Credit Office of the NBC and Chief of Accounting at Pacific Commercial Bank, the Director of Accounting and Finance who has worked as Chief of Remittance at Pacific Commercial Bank and the Operations Director of Maxima who has a Bachelor's degree in Business Administration. The Board consists entirely of Maxima's senior management. In the financial year 2007 the organisation plans to include one of its staff members on the Board. Central bank regulations require that the Board meets at least once in a quarter to review progress but meetings are held more frequently.

2 Microfinance operations

2.1 Background of microfinance operations

Maxima started microfinance lending in June 2000 with initial seed capital of US$5,000. The organisation continued to conduct microfinance activities mainly from the contributions made by the Founders/Board members and their friends and relatives till February 2005. External borrowing became the main source of funding only in 2005 after the first loan of $50,000 was received from the Rural Development Bank.

The organisation has recorded a 70% growth in portfolio and almost 29% growth in the number of borrowers over the last year ending December 2006. As on 31 December 2006, the organisation had 1,595 members of which 1,566 were active borrowers. It was operating in 120 villages of Kandal Province. The organisation plans to grow slowly and maintain the quality of its operations.



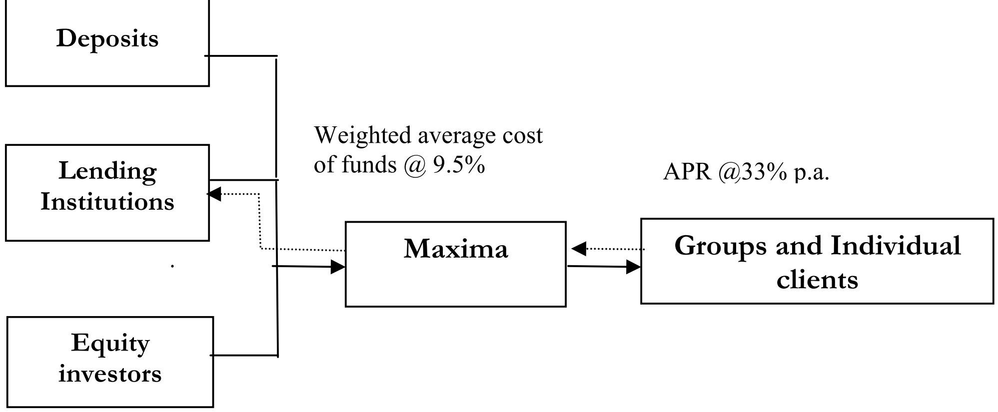
Of Maxima's 23 staff, 18 were involved in credit and front line operations. The organisation had five senior management staff who are also equity shareholders (and members of the Board). The other staff includes a Credit Manager (CM), a Deputy Credit Manager (DCM), 4 Loan Officers (LO) and 10 Credit Agents (CA). The current Operations Director works part time with Maxima. The organisation plans to recruit a new Operations Director in the financial year ending December 2007. The Credit Agents and Loan Officers manage field operations with the support of CM and DCM who supervise and monitor field operations.

Besides the equity contributions made by board members, employees and private persons, Maxima has obtained funds from three sources – Appui au Developpement Autonome (ADA) of Luxemburg, Etimos of Italy and the Rural Development Bank (RDB) of .Cambodia to finance its loan portfolio.

Source of Loan Funds	Sanctioned amount (in US$)	Utilised amount (in US$)	Outstanding (in US$)	Rate of Interest
ADA	100,000	50,000	50,000	9.0%
Etimos	100,000	100,000	98,833	Libor+4.5%
RDB	450,000	450,000	230,000	10.0%
Sub Total	**650,000**	**600,000**	**378,833**	

The flow of funds to and from the organisation is presented below

Funds flow



Note: Dotted lines indicate repayments.

The current equity shareholding structure of Maxima is presented below:

Name of the Share Holder	Value of Shares @$10 per share	Number of shares
Mr An Bun Hak	50,000	5,000
Mr Uong Kimseng	50,000	5,000
Ms Sreng Sive Chheng	45,000	4,500
Mr Chet Chan Prasoeur	16,000	1,600
Mr. Pa Ponnarithy	19,000	1,900
Maxima Staff	5,000	500
Total	185,000	18,500

4.2 Microfinance policies

Maxima provides both group as well as individual loans. However, group loans form a very small component of the total portfolio (<1%), as most of the Maxima clients prefer to take individual responsibility for the credit rather than joint liability. Most of the older groups of Maxima have graduated to individual loans. In its mobilisation and interactions with clients, the organisation follows good microfinance practice assessing competition, on the one hand, and ensuring client awareness of its terms and conditions on the other. A client is selected based on his/her capacity to repay the loan and ability to provide collateral (25-30% of the value of the loan). In case a client does not have a title deed even though he/she is the owner of the assets, a certificate of ownership is obtained from the commune chief. Loans are provided mostly for productive purposes. Loans are disbursed in the field within 2-3 days of client selection.

A Credit Agent is required to fill up loan applications and other related loan documents while a Loan Officer appraises and recommends the loan application to the Credit Committee. Loans <1,000 US$ are approved by a Sub-credit Committee comprising of MD, Director Finance and Loan Officer whereas higher loans are approved by Credit Committee comprising of all the Board Members. Loan collections are also made by CA and LO jointly.

Savings products

Maxima offers a voluntary savings product to its clients. A client can deposit funds with Maxima for a fixed tenure varying from 3 months to 24 months. The interest rate offered to the client varies based on the tenure of the deposit. Details of the savings product are presented in the table below

Duration	Annual Interest Rate		Minimum Amount	
	Riel	US$	Riel	US$
3 months	7.0%	6.0%	100,000	50
6 months	8.0%	7.0%	100,000	50
12 months	9.0%	8.0%	100,000	50
24 months	10.0%	8.5%	100,000	50

For deposits of more than US$500, the interest rate offered is 10.8% p.a. for a tenure of less than one year and 12% p.a. for a tenure of more than one year. Maxima also motivates its staff to save with the organisation and offers them an interest rate of 10.8% p.a. irrespective of the amount deposited.

Loan Products: Maxima offers three loan products to its clients

Product	Quantum	Terms
Individual Loans	$50 to $950	Rate: 3% per month Term: 10/20 months Repaid: monthly
Groups loans	$50 to $950	Rate: 3% per month Term: 10/20 months Repaid: monthly
Small-medium loans	$1,000 to $7,000	Rate: 2.5% per month Term: 10/20 months Repaid: monthly

Notes:

1 The interest rate was reduced from 4%. to 3% p.a. in July 2004 to match the competition
2 There is a collateral requirement of 25-30% of the loan amount for all loans >US$50
3 A client can opt for a three month grace period if the loan term is 10 months. Only interest is collected during the grace period. No grace period is available for loans with 20 months' tenure.
4 No pre-payment penalty is charged

3 Observations

3.1 Governance & strategy

Maxima has moderate-to-weak performance on governance and strategy, with a grade of **β–.** A complete overlap between the organisation's Board and management (absence of independent directors), absence of a full time Operations Director, an inefficient service delivery mechanism and low depth of operations in the existing operational areas are the main reasons for this assessment.

- Strategy for microfinance operations

  Maxima has maintained a high focus on establishing sustainable microfinance operations since the beginning. It has established a good and friendly rapport with its clients and has been successful in retaining most of its clients. Client drop-outs have been very low. The organisation has also created good credit discipline among its clients and staff, which has enabled it to maintain excellent portfolio quality. The organisation also realises that it needs to build the capacities of its staff and has, therefore, been attempting to upgrade their skills and expose them to the best microfinance practices.

  Governance structure – The Director-managers of Maxima are also the owners of the company with 97% of the equity. The rest of the equity has been contributed by the MAXIMA staff. The presence of only the management team on the Board is not desirable and reflects a weak approach to governance. As a result, the organisation does not meet the standards of accountability that would provide comfort to external stakeholders in the matter of fiduciary responsibility. The organisation is aware of this problem, however, but does not have any immediate plans to address the issue.

  Dividend distribution – The organisation has followed the practice of distributing dividends in cash but does not maintain proper accounts for the distribution. Though this seems to result from lack of knowledge of good accounting practices, it is a serious issue that reflects upon the transparency and accountability of the management.

  Microfinance growth – The organisation has grown its operations very slowly. With less than 1,600 members even after six years of operations and plans to continue its slow growth even in the future, this indicates a lack of ambition on the part of management. This is surprising in a microfinance market like Cambodia.

  Part time management staff – Out of the 5 member management team, 2 are only involved part time in the operations of Maxima. The Vice Chairman of Maxima is employed with an IT Company while the Operations Director also works only part time and spends just a few days a month at Maxima. Though the current scale of operations is small, this has implications for outreach and overall institutional development. Having a full time Operations Head would enable Maxima to focus better on improving microfinance strategy and systems as well as acquiring a larger client base.

  Inefficient delivery mechanism - The present staff productivity is very low with the total number of borrowers per staff at only 67 and borrowers per field staff at 111. This is much lower than the international average (borrowers per staff member, MBB: 140, M-CRIL average for Cambodia: 213). The low staff productivity has resulted from the organisation's policy of conducting all field operations with a team of two field staff. If the organisation equips its CAs to conduct the entire field operation – loan appraisals, collections as well as field documentation individually (as is the case at other MFIs in the region) it could almost double its current staff productivity.

Low depth of operations - The organisation has very low depth of operations in the existing areas. It had 1,595 members in 120 villages indicating an average of only 13 members per village on 31 December 2006. The field areas visited appeared to have substantial scope for expanding the client base there. Though other MFIs were also working in those areas, there was still a fair proportion of households that were not being served by any of other microfinance service provider. Increasing the depth of operations would help the organisation improve its staff productivity by catering to a larger number of clients in less time and would lower the cost of delivery.

Staff induction and training - The organisation is not yet confident of its staff managing a branch on their own and is thus trying to invest in building their capacities first. Though this is a good move, the current induction and training period is too long and needs to be looked at again. The CA is recruited and trained on the job. He needs to work for at least two years before the organisation considers promoting him to the LO level. Other MFIs train their field officers who on the job for only two to three months, before they start functioning independently. The organisation needs to refine its recruitment, induction and training procedure to ensure that people with the necessary skills are recruited and trained to take up responsibilities independently in a reasonable timeframe.

Competition – There are other MFIs like AMK, Amret and Prasac.operating in Maxima's area of operation. The organisation has reduced its interest rate from 4% p.m. to 3% p.m. for loans less than US$1,000 and 2.5% pm for loans above US$1,000 due to competition. Any further decrease in interest rate by the other (larger) MFIs could put pressure on Maxima to bring down its interest rate further. The organisation would do well to be conscious of its level of cost and adopt more cost effective strategies. Maxima has not faced any noticeable problem of client drop-out due to competition so far since its member base is very small and it has been possible for its staff to maintain a good relationship with clients.

Savings product– Despite being licensed by the Central Bank, the deposit mobilisation of Maxima is low (14.7% of total liabilities).[2] Since the organisation has relied mainly on its internal resources for funds so far it has not taken the initiative to promote its savings product. Most of the deposits mobilised so far have been from friends and relatives (85.7%). The staff contribution is around 10% while only 4.3% has been contributed by clients.

3.2 Managerial factors

Maxima has a moderate performance on management with a rating grade of β. Weaknesses in the accounting system and MIS, limited business planning skills and low staff productivity have resulted in this performance. Since operations are small and systems are centralised, the organisation has managed reasonably with its present systems. However, these would need to be upgraded and staff capacities enhanced if Maxima is to grow.

[2] Low deposit mobilisation is quite common in Cambodia where the public is not comfortable with placing their savings in banks due to the failure of several banks and finance companies in the past.

- Human resource quality and management

The management staff is well qualified but their skills in the technical areas of microfinance such as accounting, MIS, financial and business planning and operational risk management are not adequate for expanded operations. Staff productivity is very low due to the design of the delivery mechanism (discussed earlier). Induction and training of staff needs to be improved to ensure that new recruits are able to take over responsibility independently in a reasonable timeframe. While Credit Agents are currently high school graduates, the organisation plans to hire at least bachelor's degree holders in the future. Financial skills of the lower level staff also need improvement.
The Operations Director devotes very few days each month to the microfinance programme, which are not sufficient. The Finance Director is responsible for accounts, MIS, HR and also serves as treasurer. Since operations are centralised and size is small, the organisation has been able to manage. However, in order to grow the organisation would do well to induct people with specific expertise to manage these functions.

- Accounting and MIS

The organisation has used the Quick Book accounting package since 2003 for maintaining its microfinance accounts. The present mechanism of recording and capitalising dividends as well as retained and current year profit or loss is inaccurate. The organisation does not show the pay out of dividends from its profits in its income and expenditure statement. Part of the dividend is taken by shareholders in cash and the other part is re-invested in MAXIMA. However, since a clear record of the amount of dividend declared each year and the re-capitalisation of dividend is not easily available, it is difficult to ascertain the exact figures for this. As a result, the balance sheets provided by MAXIMA during the rating indicate inconsistencies in the composition of its net worth. Though these inconsistencies result from ignorance of good accounting practice on the part of MAXIMA staff, there is an appearance of lack of transparency and accountability. This is compounded by the lack of independent oversight by the Board of Directors. The organisation follows NBC norms for the creation of Loan Loss Reserves (LLR).

The MS-Access based MIS software (designed internally) used by the organisation provides important information on dues and collection. It can also generate portfolio reports based on location, product category and end use. However, the Demand, Collection and Balance (DCB) report in the software needs improvement as after the completion of a loan term it does not show the entire principal outstanding as due. The software does not have any report on overdues. The organisation manually identifies loan accounts that have become overdue and transfers their detail to MS Excel for analysis.

Most of the overdues of MAXIMA are more than 90 days old. However, the organisation has had a policy of not considering an account to be overdue if the client pays interest regularly. Based on this, despite being overdue for a long time, loans appear in the ageing analysis as only 30 or 60 days overdue. However, based on the recommendations of a recent NBC inspection, MAXIMA is now in the process of revising this policy and plans to include all loans with delays in repayment of principal as overdue loans.

Since the software does not assign a unique member identification number to the client it is not possible to track client drop-outs or the number of loans that have been taken by a member in the past. The number of analytical reports that the software can generate are limited though, considering the present scale of operations, it has served the basic needs of the organisation.

The MAXIMA management does not understand the reporting software provided to it by ADA, Luxemburg. This needs to be resolved if the reporting function of the software is to become a useful management tool rather than simply a condition of the loan provided to it.

- Tracking system for overdues

The MIS software does not generate any report of overdues. However, it provides a DCB, which forms the basis for the manual calculation of overdues.

Maxima has developed strong credit discipline among its clients and staff, which has ensured good portfolio quality. The proper selection of clients and good rapport with the clients has helped the organisation in maintaining a healthy portfolio. In case of delays due to genuine problems, the organisation does not pressurise clients for recovery but gives them extra time and enters into a new contract with the help of the commune chief to recover the money. To judge the genuineness of a case, the organisation inquires about the financial position of the client from the neighbours and the commune/village chief.

- Financial planning and control systems

Financial planning is relatively simple as the organisation operates from the HO. Disbursements are planned based on loan request and sanctions. Repayments collected from the field are deposited in the bank on a regular basis. Maxima has prepared a three year financial plan for its microfinance programme. However, it is not based on sound operational assumptions like growth in clients, borrowers, average loan size and increase in staff but on a fixed amount of disbursement that the organisation would like to make every month. As a result the projected figures in the budget on outstanding loans, operating and personnel expenses are neither accurate nor consistent. The lack of skills of the management in the preparation of the budget is the main cause of this inaccuracy. The plan does not include cash flow projections along with financial statements.

Maxima does not provide any targets on outreach to the staff as it feels that this could affect the quality of operations. Thus, there is no incentive system to enhance staff productivity and efficiency.

The organisation does not have a separate audit team presently. However, it plans to recruit an auditor in the current financial year based on the recommendations of NBC officials. Discussions with the management indicate that they are unsure of the role of an internal auditor and are also thinking of involving anyone recruited for this purpose in operations. This would, of course, dilute the effectiveness of the internal audit function. At present monitoring is the responsibility of the Credit Manager and Deputy Credit Manager. They conduct the physical verification of loans, monitor loan documents and follow up on delays in repayment. The Finance Director also monitors loan documents. Every month one of the Directors is also designated to visit field operations. Perhaps on account of its relatively small size, the organisation has not so far had any cases of fraud/misappropriation.

➢ Quality of clients/group members

Maxima has good quality clients with a clear understanding of its operational policies and loan products. However, the clients are not aware of the savings product. Many of the clients visited were 3-4 cycles old and seemed satisfied with the services provided by the organisation. The staff seems to have maintained friendly relations with them.

➢ Infrastructure

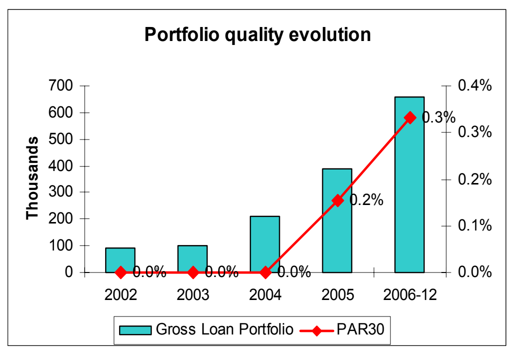
The infrastructure base (fixed assets) of Maxima stands at US$9,064 as on 31 December 2006, which constitutes 1.3% of the total assets. This includes computer hardware and software, vehicle, furniture and fixtures at the Head Office (HO). The HO operates from rented premises. This infrastructure is adequate to support the small current scale of operations.

3.3 Financial performance

Maxima has obtained a rating grade of α on financial indicators. The excellent performance on financial indicators has resulted from good portfolio quality, a high capital base and reasonable profit margins.

➢ Credit performance and asset quality

Maxima has excellent credit performance with a current repayment rate of 99.4% and portfolio at risk PAR_{60} at 0.3%. This could be attributed to the strong credit culture developed by Maxima among its clients and staff. Most of the current overdues are more than 90 days old and on account of reasons of genuine difficulty. The organisation is trying to recover these arrears gradually.



The portfolio of Maxima as on 31 December 2006 was well diversified with 41% in production and craft activities, 28% in agriculture, 17% in services and trade and 14% for consumption and other uses.

➢ Mobilisation of funds

Maxima started to borrow funds from external agencies only in 2005. Till then, it was relying mainly on the equity funds contributed by the promoters and internal accruals. The organisation has mobilised savings mainly from friends and relatives of promoters. The weighted average cost of funds as on 31 December 2006 was 9.5%p.a.

➢ Asset, liability and equity composition

Maxima has good asset utilisation with 92.3% deployed in loans. The proportion of cash to total assets is also reasonable at 5.4% (including capital guarantee deposit with NBC).

The risk weighted Capital Adequacy Ratio (CAR) is good at 31.5%. Capital infusion by promoters and internal accruals has resulted in a sound capital base.

➢ Profitability and Sustainability

Maxima has performed well on financial indicators with Operational Self Sufficiency of 120.6% and Financial Self Sufficiency of 111.2%. The operational expense ratio of 19.2% could be lower considering the inefficiencies in the delivery mechanism adopted by the organisation – particularly the potential to improve both the depth of outreach in its operational areas and the staff productivity ratio. However, the high 32.6% yield on portfolio has resulted in profit margins with Returns on Assets of 4.2%. The yield to APR ratio at 98.9% is good due to the excellent quality of its portfolio.

4 Conclusions

Strengths	Weaknesses
Organisational ✓ Board of Directors with experience in banking and finance ✓ High equity investment by the promoters	Organisational ✗ Absence of independent directors – complete overlap between management and Board ✗ Inefficient delivery mechanism
Managerial ✓ Qualified managerial staff	Managerial ✗ Low staff productivity ✗ Absence of full time Operations Director ✗ Low depth of operations ✗ Scope for improving financial planning, MIS and accounts ✗ Scope to improve staff induction and training
Financial ✓ Excellent portfolio quality ✓ Sound performance on profitability and sustainability ✓ Sound capital base ✓ Good Yield to APR ratio	Financial

5 Creditworthiness

Maxima has achieved a rating grade of ***beta (β)***.[3] In terms of creditworthiness, this implies **moderate safety**. The organisation has an overall moderate performance despite having excellent financial indicators. Excellent portfolio quality, good capital adequacy and reasonable profit margins have resulted in good performance on financial indicators. However, the complete overlap of management and Board of Directors, inefficient service delivery model, low staff productivity and weaknesses in management systems have resulted in moderate to weak performance on governance and management aspects.

In M-CRIL's view, on account of the future growth plans of the organisation and sound performance on financial indicators, it can absorb – from all sources – additional funds of US$100,000 during the next one year – for on-lending to its borrowers. **However, any inflow of funds should be contingent upon a widening of the composition of the Board to include at least two independent directors and the hiring of a full time Operations Director.**

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. **This rating is valid, subject to no other substantial inflows of loan funds into the organisation beyond the limits specified here** and to no other significant changes in the organisational structure and external operating environment.

[3] The rating grade given measures performance on the rigorous standards established by M-CRIL. The assessment uses an instrument designed specifically for the conditions and nature of MFIs operating in Asia and is comparable with other ratings done by M-CRIL in this region.

Financial statements for MAXIMA' microfinance operations

as on 31 Dec-05			as on 31 Dec-06
US$	**Assets**	US$	US$
	Current assets		
74,969	Cash in hand and bank		34,534
3,500	NBC - Capital Guarantee Deposit		3,500
1,370	Advances		2,140
4,880	Other current assets		5,414
	Loans outstanding		
388,990	Gross loans outstanding	660,577	
-3,890	(Loan loss reserve)	-6,606	
385,100	Net loans outstanding		653,971
469,820	**Total current assets**		**699,560**
	Long term assets		
12,481	Net property and equipment	9,064	
12,481	**Total long term assets**		**9,064**
482,300	**Total Assets**		**708,624**
	Liabilities and Networth		
	Current liabilities		
46,190	Savings deposit		103,840
	Provident funds payable		3,160
	Staff insurance fund payable		1,330
	Interest payable		402
	Income tax payable		4,001
	Other current liabilities		4,336
46,190	**Total current liabilities**		**117,068**
	Long term liabilities		
	Long term debt		
	ETIMOS	98,833	
200,000	Rural Development Bank	230,000	
50,000	ADA, Luxemburg	50,000	
250,000	Total long term debt		378,833
250,000	**Total long term liabilities**		**378,833**
	Net worth		
183,630	Paid up equity	185,000	
-38,165	Dividends	0	
19,024	Retained net surplus/(deficit)	2,480	
21,621	Current net surplus/(deficit)	25,243	
186,110	**Total net worth**		**212,723**
482,300	**Total Liabilities and Net Worth**		**708,624**

Income Statement – for the year ending

Jan-Dec 2005			Jan-Dec 2006
US$	**Income**	US$	US$
96,518	Interest on loans	183,579	
1,016	Other income	1,946	
97,533	**Total income**		**185,525**
	Financial costs		
8,604	Interest on borrowings	30,022	
3,419	Interest on saving deposits	7,975	
2,791	Fee and Service Expenses	4,830	
82,720	**Gross financial margin**		**142,698**
3,890	Provision for loan losses	2,716	
78,830	**Net financial margin**		**139,982**
	Operating expenses		
26,490	Salaries	50,205	
4,213	Travel	14,240	
2,989	Depreciation	5,976	
22,742	Administrative/office expenses	37,899	
56,434	**Total Operating expenses**		**108,319**
22,396	**Net Surplus/Deficit**		**31,663**
22,396	Profit before tax (PBT)		31,663
775	Tax		6,420
21,621	**Profit after tax (PAT)**		**25,243**

Notes to the financial statements

1. The Financial Statements have been prepared for the microfinance operations of Maxima.
2. Financial costs (interest on borrowings and savings, if any) and operating costs are calculated on an accrual basis. Loan loss provisioning expense and the corresponding balance sheet entry (loan loss reserve) has been made to take care of any unforeseen contingencies

Projected Cash Flows and Financial Statements for five years

- The following assumptions and projections - derived from the limited information available from the organisation on its future financial projections – are tentative in nature. These **should not be viewed in isolation nor be regarded as a basis for investing in the future** - only the main risk rating report provides an opinion on investments.
- All assumptions are based on the data gathered during the rating exercise and the savings and credit methodology used by the organisation.

1 Basic Assumptions

(see also Notes to Cash Flow Projections below)

For the year ending:	31-Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Members	1,595	2,095	2,695	3,395	4,195	5,095
Yield on average portfolio	32.6%	31.0%	30.0%	29.0%	29.0%	28.0%
Interest paid on savings	10.8%	9.0%	8.5%	8.5%	8.5%	8.5%
Cost of external funds	9.2%	9.8%	9.7%	9.7%	9.5%	9.5%
Repayment rate from groups	99.4%	99.0%	98.0%	98.0%	98.0%	98.0%
Loan loss reserve ratio	1.0%	1.5%	2.0%	2.0%	2.0%	2.0%
Number of active loanees/loan a/cs	1,566	2,053	2,641	3,327	4,111	4,993
Number of loans disbursed		1,848	2,377	2,994	3,700	4,494
Average loan size to borrowers	564	592	622	634	666	699

2 Projected balance sheets

(USD)

As on:	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Assets						
Cash balance	38,034	42,786	51,680	74,368	96,752	113,266
Loans outstanding	660,577	774,663	942,980	1,213,814	1,582,348	2,022,009
Loan loss reserve	-6,606	-11,620	-18,860	-24,276	-31,647	-40,440
Net loans outstanding	653,971	763,043	924,121	1,189,538	1,550,701	1,981,569
Other current assets	7,554	9,820	12,275	14,730	17,676	20,328
Net fixed assets	9,064	17,704	25,049	36,291	48,848	66,521
Total Assets	**708,624**	**833,354**	**1,013,125**	**1,314,928**	**1,713,977**	**2,181,683**
Liabilities and Net Worth						
External borrowings	378,833	352,681	413,230	560,140	806,940	1,087,080
Savings deposit	103,840	119,416	149,270	201,515	261,969	353,658
Other liabilities	13,228	15,494	17,949	20,404	23,350	26,002
Equity	185,000	270,000	300,000	330,000	330,000	330,000
Retained surplus/deficit	2,480	27,723	75,762	132,675	202,869	291,718
Current surplus/deficit	25,243	48,039	56,913	70,193	88,849	93,225
Net worth	212,723	345,762	432,675	532,869	621,718	714,943
Total Liabilities and Net Worth	**708,624**	**833,354**	**1,013,125**	**1,314,928**	**1,713,977**	**2,181,683**

3 Projected Income Statements

(USD)

For the year ending:	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Income						
Interest on loan	183,579	222,462	257,647	312,735	405,443	504,610
Other income	1,946	2,724	3,542	4,604	5,525	6,630
Total Income	**185,525**	**225,187**	**261,188**	**317,340**	**410,969**	**511,240**
Cost						
Financial	42,827	45,305	49,690	64,578	88,417	120,995
Loan loss provision	2,716	5,014	7,240	5,417	7,371	8,793
Depreciation	5,976	1,360	2,656	3,757	5,444	7,327
Operating expenses (excl. depr.)	102,344	113,460	130,462	155,845	198,676	257,593
Total Cost	**153,862**	**165,138**	**190,047**	**229,598**	**299,907**	**394,709**
Surplus/Deficit	**31,663**	**60,048**	**71,142**	**87,742**	**111,062**	**116,532**
Tax	6,420	12,010	14,228	17,548	22,212	23,306
Net surplus	**25,243**	**48,039**	**56,913**	**70,193**	**88,849**	**93,225**

4 Projected Cash Flow Statements

(USD)

For the year ending:	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Inflows					
Opening cash	38,034	42,786	51,680	74,368	96,752
External borrowings	100,000	220,000	380,000	480,000	640,000
Repayments from members	980,176	1,309,719	1,628,347	2,095,506	2,702,650
Equity	85,000	30,000	30,000		
Savings deposit	15,576	29,854	52,245	60,454	91,689
Interest income	222,462	257,647	312,735	405,443	504,610
Other income	2,724	3,542	4,604	5,525	6,630
Total Inflow	**1,443,973**	**1,893,547**	**2,459,611**	**3,121,297**	**4,042,332**
Outflows					
Disbursement	1,094,261	1,478,036	1,899,180	2,464,040	3,142,312
Repayments to lenders	126,151	159,451	233,090	233,200	359,860
Interest paid on savings deposits	10,047	11,419	14,908	19,698	26,164
Operating expenses (excl. depr.)	113,460	130,462	155,845	198,676	257,593
Interest paid on borrowings	35,258	38,271	49,670	68,719	94,831
Tax	12,010	14,228	17,548	22,212	23,306
Fixed assets purchase	10,000	10,000	15,000	18,000	25,000
Total Outflow	**1,401,187**	**1,841,867**	**2,385,243**	**3,024,545**	**3,929,066**
Net cash balance	**42,786**	**51,680**	**74,368**	**96,752**	**113,266**

5 Key projected performance ratios

For the year ending:	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Operational self-sufficiency	120.6%	136.4%	137.4%	138.2%	137.0%	129.5%
Return on average assets	4.2%	7.8%	7.7%	7.5%	7.3%	6.0%
Operating expense ratio	19.2%	16.0%	15.5%	14.8%	14.6%	14.7%
Average outstanding/borrower (US$)	422	377	357	365	385	405
Portfolio growth rate	69.8%	17.3%	21.7%	28.7%	30.4%	27.8%
Risk weighted capital adequacy ratio	14.7%	14.3%	14.7%	15.3%	15.3%	16.2%

6 Notes to the projections

1 The Operating Expense Ratio is based on current levels and is projected based on changes in overall productivity and growth in staff and portfolio.
2 Estimated external borrowings are subject strictly to performance based on the findings of this microfinance capacity assessment (credit rating).
3 Other incomes are assumed to be around 0.5% of the portfolio outstanding.
4 Disbursements are taken as the [number of loans disbursed during the year*average loan size to borrowers].
5 Estimates on growth in outreach and demand for loans from the organisation have been made based on current growth levels and future expansion potential and capacity.
6 An additional 500 members growth has been projected in the first year based on the discussions with the organisation during the rating
7 Yield on portfolio has been assumed to decrease due to increase in competition in future
8 Repayments to other lenders is 33% per annum on the projected borrowings and the actual repayments due on the present outstanding debt.
9 Interest paid is taken as the [average cost of external funds * the average external borrowing liability figure].
10 In the projections the net worth figure includes donations and equity, retained surpluses and current surplus.
11 The proportion of other assets and other liabilities to the total assets, for all the years under projection, has been assumed to be same as in the current year.
12 Average cash balance has been assumed to be between 5% and 7%.
13 No dividends are assumed to be paid to the investors during the projected period.

Glossary

1. Current repayment rate
   Ratio of principal recovered (net of pre-payments) to the principal due in the current year.
2. Portfolio at risk (PAR_{60})
   Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 60 days to the total loans outstanding on a given date.
3. Yield on portfolio
   The interest income on loans divided by the average loan portfolio for the year.
4. Other income to average portfolio
   Total income other than from the interest on loans divided by average portfolio.
5. Financial cost ratio
   Total interest expense for the year divided by the average portfolio.
6. Loan loss provisioning ratio
   Total loan loss provisioning expense for the year divided by the average portfolio.
7. Operating expense ratio
   Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. Average loan portfolio
   This represents the average loan outstanding for the year computed on a monthly basis.
9. Average total assets
   This represents the average total assets for the year calculated on an annual basis.
10. Operational Self-Sufficiency
    Ratio of total income to total costs for the year.
11. Financial Self-Sufficiency
    Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. market interest rate), equity (w.r.t. inflation) and in-kind donations.
12. Risk weighted capital adequacy ratio
    Ratio of networth to risk weighted assets (Risk weights: 100% for all assets except the following: fixed assets 50%, interest bearing deposits 20% and cash 0%).

List of Abbreviations

APR	Annual Percentage Rate
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
CM	Credit Manager
CRR	Current Repayment Rate
DCB	Demand -Collection Balance
DCM	Deputy Credit Manager
ED	Executive Director
FSS	Financial self-sufficiency
HO	Head Office
LO	Loan Officer
Ltd	Limited
LT	Long Term
M-CRIL	Micro-Credit Ratings International Ltd
m-f	Microfinance
MFI	Microfinance Institution
MIS	Management Information System
NBC	National Bank of Cambodia
OER	Operating expenses ratio
OSS	Operational self-sufficiency
p a	Per annum
PAR	Portfolio at Risk
PLR	Prime Lending Rate
RDB	Rural Development Bank
RoA	Return on Average Assets
w.r.t.	with respect to
wef	with effect from

M-CRIL's Microfinance Rating Symbols

M-CRIL Grade	Description
α++ alpha double plus	Highest safety, very good systems ➢ most highly recommended
α+ alpha single plus	Very high safety, good systems ➢ highly recommended
α alpha	High safety, good systems ➢ highly recommended
α– alpha minus	Reasonable safety, good systems ➢ recommended
β+ beta plus	Reasonable safety, reasonable systems ➢ recommended, needs monitoring
β beta	Moderate safety, moderate systems ➢ acceptable, needs improvement to handle large volumes
β– beta minus	Significant risk, poor to moderate systems ➢ acceptable only after improvement
γ+ gamma plus	Substantial risk, poor systems ➢ needs considerable improvement
γ gamma	Highest risk, poor systems ➢ not worth considering